

CREDIT OPINION

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Erie (Town of) CO

Update to credit analysis following upgrade to Aa1

Summary

The Town of Erie, CO (Aa1) credit profile benefits from a rapidly growing population and expanding tax base with significant capacity to continue its growth trajectory given availability of land for expansion with access to major employment centers within the Denver and Boulder metropolitan area. The credit profile further benefits from a trend of strong reserves as well as low pension and debt profiles. The credit profile is constrained by the town's reliance of economically sensitive revenue such as sales tax revenue and one-time revenues in the form of construction and permit fees.

On August 20, 2018, we upgraded the town's general obligation unlimited tax bond rating to Aa1 from Aa2.

Credit strengths

- » Solid financial operations with ample reserve levels
- » Rapidly growing population and expanding tax base outside of Denver metropolitan area
- » Low debt and pension burdens

Credit challenges

- » Reliance on economically sensitive revenues with a significant portion influenced by growth and construction projects
- » Population growth increases demand for city services

Rating outlook

Moody's does not generally assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Sustained long-term economic growth and diversification

Factors that could lead to a downgrade

- » Deterioration of the town's financial reserve position
- » Economic contraction measured by a trend of actual value declines
- » Significant debt issuances absent corresponding taxable value growth

Key indicators

Exhibit 1

Erie (Town of) CO	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,217,560	\$2,352,726	\$2,439,005	\$2,991,442	\$3,162,190
Population	19,429	20,208	21,239	22,521	24,234
Full Value Per Capita	\$114,137	\$116,425	\$114,836	\$132,829	\$130,486
Median Family Income (% of US Median)	169.8%	174.5%	178.4%	173.6%	175.6%
Finances					
Operating Revenue (\$000)	\$15,745	\$16,762	\$21,305	\$21,674	\$26,148
Fund Balance (\$000)	\$7,903	\$8,026	\$6,917	\$10,074	\$16,252
Cash Balance (\$000)	\$17,620	\$21,830	\$17,121	\$15,896	\$23,660
Fund Balance as a % of Revenues	50.2%	47.9%	32.5%	46.5%	62.2%
Cash Balance as a % of Revenues	111.9%	130.2%	80.4%	73.3%	90.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$14,876	\$19,950	\$18,773	\$17,548	\$16,262
3-Year Average of Moody's ANFL (\$000)	\$1,707	\$2,380	\$2,731	\$2,904	\$3,163
Net Direct Debt / Operating Revenues (x)	0.9x	1.2x	0.9x	0.8x	0.6x
Net Direct Debt / Full Value (%)	0.7%	0.8%	0.8%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Erie's (CO) Audited Financials; Moody's Investors Service

Profile

The Town of Erie, CO is located 25 miles north of [Denver](#) (Aaa stable) along Interstate 25. The estimated population of the Town as of August 2018, is approximately 26,000, with a planning area that includes 55 square miles in Boulder and Weld Counties.

Detailed credit considerations

Economy and base: expanding tax base outside the Denver-Boulder area; rapid population growth

Erie's tax base will continue to grow over the near term supported by demand for new homes, as well as ample availability of land that has attracted affluent residents to the area. Residents benefit from a favorable location in proximity to major employment centers including the Denver and Boulder metro area with accessible thoroughfares. Erie's full value of \$3.9 billion for fiscal year (collection year) 2018 marked a significant 16% increase over the prior year, which was driven by new construction values as well as the state's two year reassessment cycle. From fiscal 2013 to fiscal 2018 average annual growth in taxable values was a favorable 9% and 38.4% growth since fiscal 2015. Future economic expansion will benefit from the availability of land (60%) within the town's 55 square mile planning area. Positively, the ten largest taxpayers mostly retail and construction related companies comprise a low 7.5% of 2018 assessed values.

Since the 2000 fiscal year, the town's population has quadrupled, reflecting growth in single-family residential homes; the current estimated population of 26,000 as of fiscal 2018 and expected to increase to 45,000 by 2035. Evidence of growth is supported by the continued increase of residential construction permits within the last five years. Residential construction activity continued to show strength in 2017, with 631 new permits issued and 568 in 2018. Officials report several large developments with a planned total of approximate 1,250 dwelling units under construction.

The town's income indicators are strong and exceed national levels with per capita and median family incomes at 152.7% of the state and 173.6% of US, respectively. The 2018 May unemployment level for Weld County (2.7%) continues to improve and was below the state (2.8%) and nation (4.4%). The Boulder County unemployment rate is also very low at 2.9% during the same time period.

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Financial operations and reserves: strong financial management and healthy reserves

Erie's sound fiscal management is expected to continue with support from growing revenue streams, including sales taxes and developers fees as the town continues to expand. Erie has demonstrated the ability to manage the growth with its pay-go capital plan and the maintenance of substantial reserves levels, which allows financial flexibility and a cushion to when growth slows.

Erie's revenue sources are dependent on sales taxes and development projects, and the revenue mix will likely continue to be influenced by construction activity over the next five years. In fiscal 2017, total operations were primarily funded by sales taxes (32%), development and construction related fees (25%), and property taxes (11%). To support growth, the town assesses permit, impact, and tap fees and uses this revenue to pay for improvements such as parks, recreation facilities, and transportation infrastructure. In addition, these fees are used to develop water resources and water, wastewater, and storm drainage infrastructure. The Town expects that sales tax revenues will continue to grow as residential and commercial development occurs in and around the community. Moody's notes, that constructions fees will eventually soften as the town reaches build-out status or if the economy halts. Future reviews will focus on the town's ability to manage revenue diversification.

Given the favorable sales taxes and construction fees revenue trend, audited results for fiscal 2017 indicated a substantial \$6.3 million operating surplus. Within the past six years, strong financial performance yielded a general fund balance that consistently exceeded 100% of revenues, which is well-above the median for similarly-rated cities nationally. Year-to-date, continued strong development activity and sales tax increases have yielded approximate \$2 million more in revenues than expenditures. The gain is expected to boost general fund reserve levels to \$26 million or a significant 100% of 2018 projected revenues. In fiscal 2019, town officials expect a \$1 million general fund surplus as growth continues.

LIQUIDITY

Liquidity is ample and expected to remain healthy given continued revenue growth. In fiscal 2017, unrestricted cash increased to \$23.6 million, or a strong 90.2% of 2017 revenues. Moody's notes that the town's [Water](#) (Aa3) and [Sewer](#) (Aa3) enterprise funds also maintain strong liquidity levels of approximate 2,400 days cash on hand or a substantial \$47 million as of fiscal 2017. The uncommonly strong liquidity in the enterprise funds reflects the significant increase in connections fees and town's rapid customer base growth as well as prudent reserve practices to maintain elevated reserves to satisfy expansion and future residents service demands.

Debt and pensions: low debt profile with low fixed cost

We expect the town's debt profile to remain favorable given current low debt levels, manageable future debt plans as well as the continued practice of cash funding one-time projects. The town's direct debt burden is low with \$16.1 million of general obligation debt outstanding which equals to a below average 0.4% of 2018 assessed value. Given the town's expected population surge and to expand and improve current facilities, Erie is considering a \$13 million town hall expansion. A combination of new debt and impact fees will fund the project. Inclusive of the expected debt, the town's direct net burden will remain manageable.

DEBT STRUCTURE

All of the district's debt is publicly issued, fixed rate and amortizes over the long term. Principal amortization is below average with 70% retired within ten years.

DEBT-RELATED DERIVATIVES

All debt issued for the town is fixed rate and does not have any derivatives

PENSIONS AND OPEB

The town's pension burden is very low. The town provides its public safety personnel with pension benefits through a multiple employer costsharing defined benefit retirement program administered by the Fire and Police Pension Association of Colorado (FPPA). Non-Police employees participate in a defined contribution plan. Moody's adjusted net pension liability (ANPL) for the town, under our methodology for adjusting reported pension data, was \$3.6 million at fiscal year-end. Erie's ANPL to operating revenues is a favorable 0.14 times, while the ANPL to full value is a low 0.12%. The town's fixed costs, including debt service and pension contributions are approximately \$2.08 million or a low 7.9% of fiscal 2017 operating revenues.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported contribution information, or the reported liability information of the statewide costsharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions

and the related credit impact on companies, governments, and other entities across the globe, please visit Moody's on Pension at www.moody.com/pensions.

Management and governance: conservative and proactive management team; strong reserve policy

Erie operates under the Trustee-Administrator form of government. Policy-making and legislative authority are vested in the Board of Trustees (the Board) consisting of the mayor and six trustees. The Board is elected on a nonpartisan basis. The mayor is elected for a two-year term and three trustees are elected for four-year terms at each biennial election. The mayor and trustees are elected at-large.

The town's operating reserve policy requires the Town to maintain a fund balance in the General Fund of 25% of the current year's budgeted operating expenditures, plus an additional reserve of \$7.5 million to provide a funding source for one-time or capital expenditures or for services in the event of severe economic conditions.

Colorado cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Economically sensitive sales taxes, one of the sector's major revenue sources, are subject to statutory caps which cannot be overridden. However, most cities have ample capacity within the statutory sales tax cap that can be raised incrementally with voter approval, which still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Colorado has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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